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(54) METHOD AND SYSTEM FOR EXCHANGEABLE BUNDLED OPTION AND NO-PRINCIPAL DEBT SECURITIES

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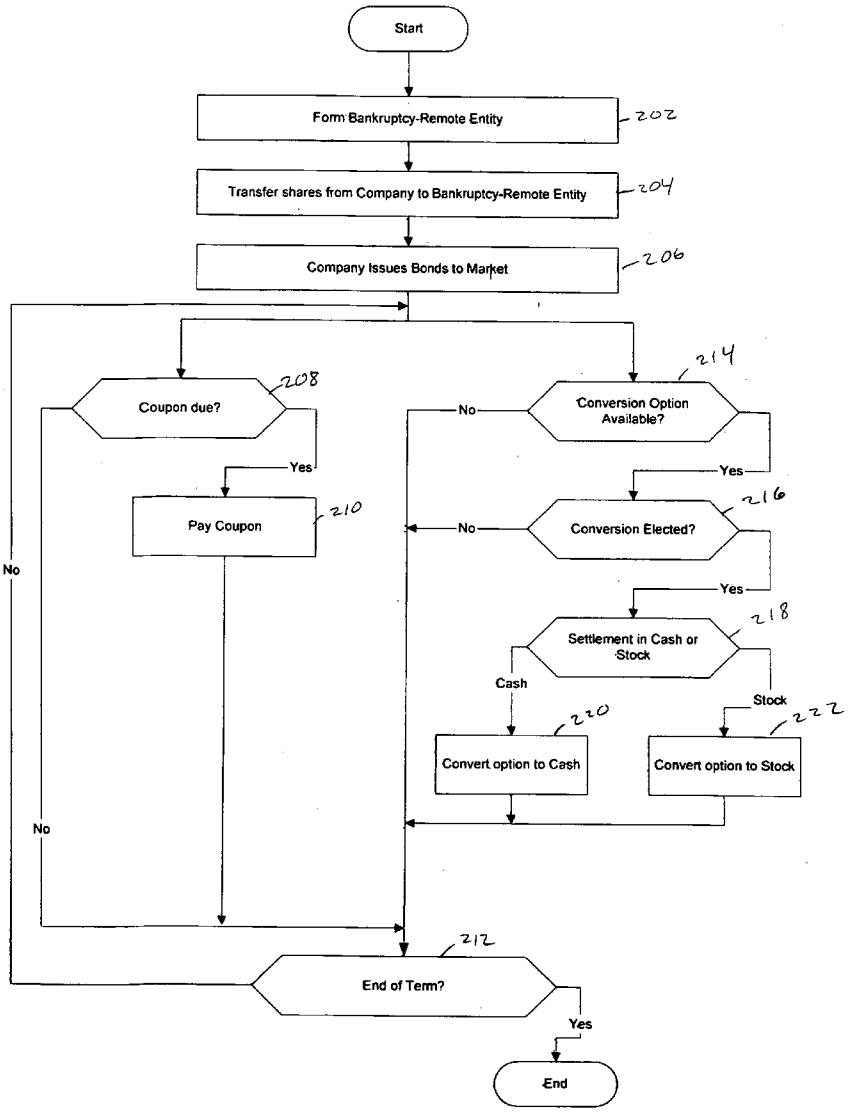
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(57) **ABSTRACT**

A bond comprises a coupon component that pays a periodic coupon during a first predetermined period of time until a maturity date of the coupon component without payment of any principal. The bond also comprises a call option component. The coupon and call option components are issued together in an initial issue of the bond. After the initial issue, the bond allows separation of the coupon component from the call option component and individual transfer of the coupon component and the call option component.



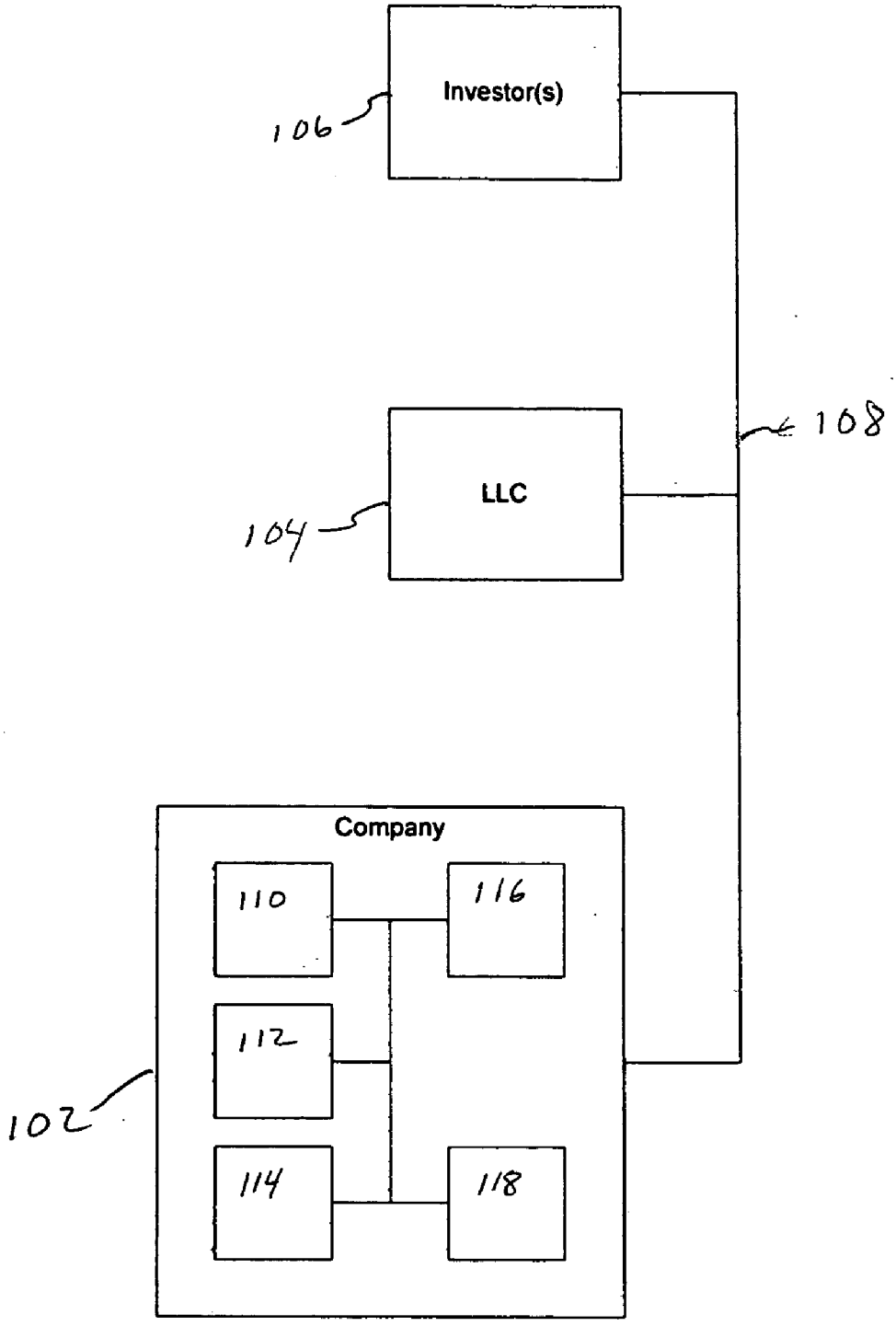


FIG. 1

100

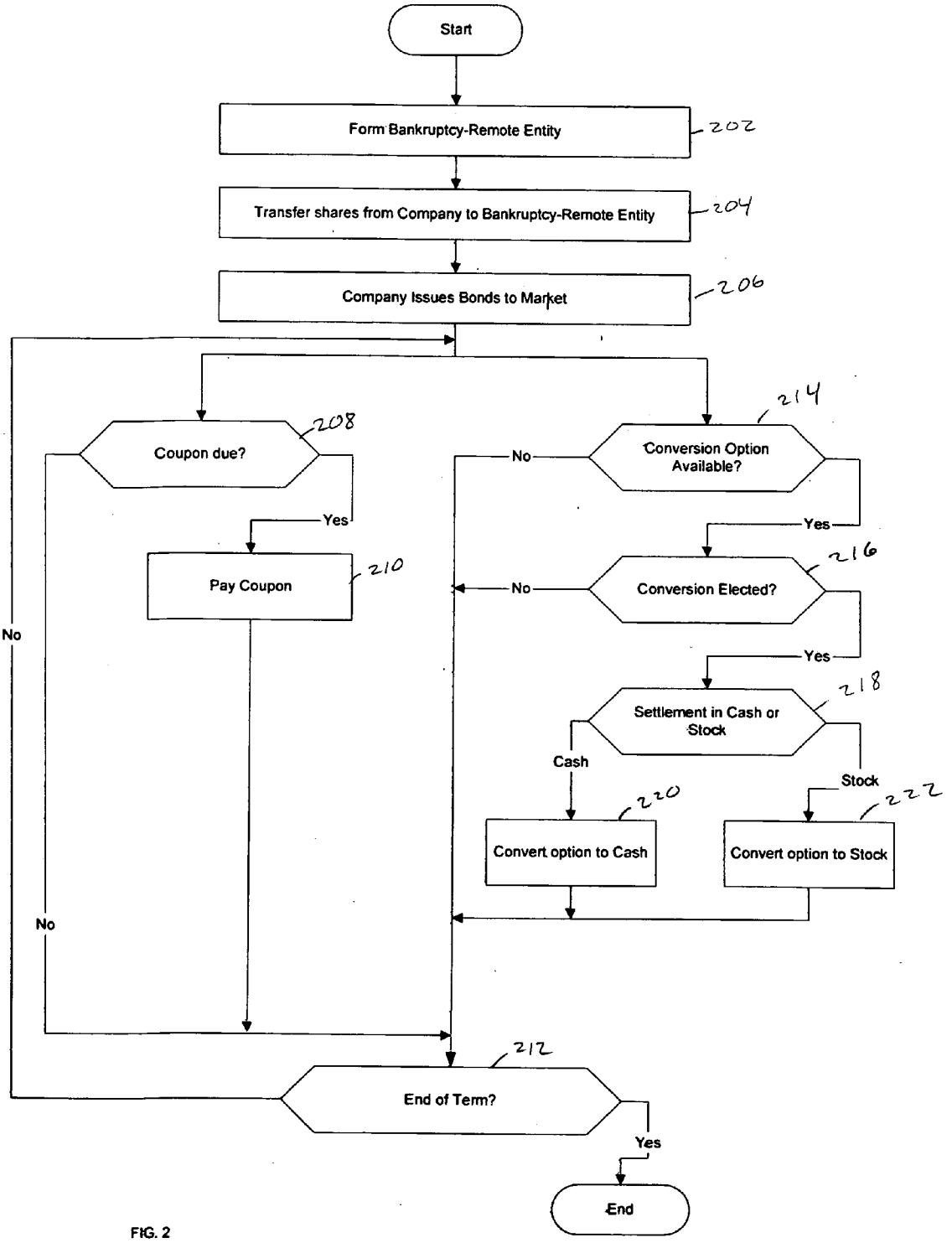

Start
Form Bankruptcy-Remote Entity
202
Transfer shares from Company to Bankruptcy-Remote Entity
204
Company Issues Bonds to Market
206
Coupon due?
208
Yes
Pay Coupon
210
No
Conversion Option Available?
214
No
Yes
Conversion Elected?
216
No
Yes
Settlement in Cash or Stock
218
Cash
Stock
Convert option to Cash
220
Convert option to Stock
222
No
End of Term?
212
Yes
End

FIG. 2

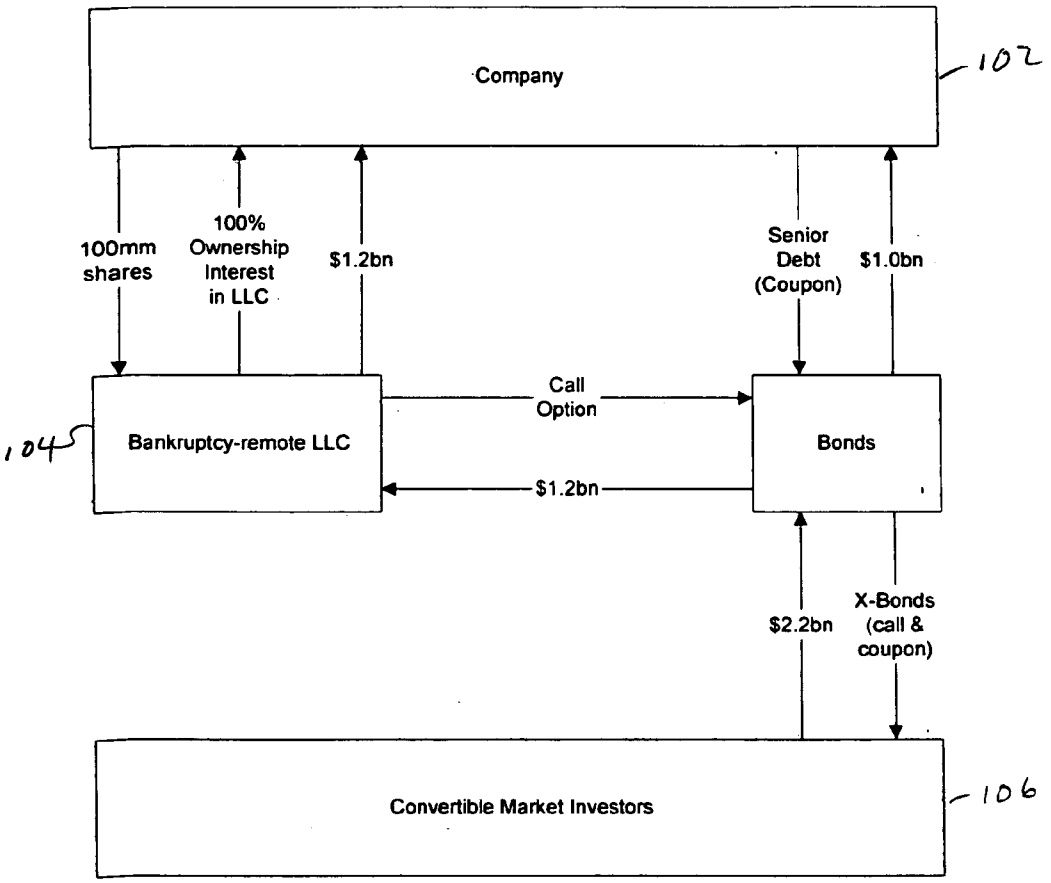

Company
102
100mm shares
100% Ownership Interest in LLC
$1.2bn
Senior Debt (Coupon)
$1.0bn
Call Option
$1.2bn
104
Bankruptcy-remote LLC
Bonds
$2.2bn
X-Bonds (call & coupon)
Convertible Market Investors
106

FIG. 3

METHOD AND SYSTEM FOR EXCHANGEABLE BUNDLED OPTION AND NO-PRINCIPAL DEBT SECURITIES

BACKGROUND

[0001] The invention relates to the field of finance, and more particularly to financial instruments that combine multiple components.

[0002] Various finance structures are known, each with respective tax, accounting and rating agency advantages and disadvantages. What is needed are structures that enhance certain of these tax, accounting and rating agency advantages, without significantly impacting other features.

[0003] The preceding description is not to be construed as an admission that any of the description is prior art relative to the present invention.

SUMMARY OF THE INVENTION

[0004] In one aspect, the invention provides a bond that comprises a coupon component that pays a periodic coupon during a first predetermined period of time until a maturity date of the coupon component without payment of any principal. The bond also comprises a call option component. The coupon and call option components are issued together in an initial issue of the bond. After the initial issue, the bond allows separation of the coupon component from the call option component and individual transfer of the coupon component and the call option component.

[0005] In one aspect, the periodic coupon is a periodic fixed coupon. In one aspect, the periodic coupon is a periodic variable coupon. In one aspect, the call option component expires at the maturity date. In one aspect, the first predetermined period of time is between 15 and 30 years. In one aspect, the call option component is exercisable at a time after issue of the bond and before the maturity date. In one aspect, the call option component is exercisable at the maturity date. In one aspect, the coupon component has recourse to a company issuing the bond. In one aspect, the call option component has recourse to a bankruptcy remote entity formed by a company issuing the bond. In one aspect, the call option component has recourse to a company issuing the bond. In one aspect, the call option component is payable in cash. In one aspect, the call option component is payable in shares of a company issuing the bond. In one aspect, the call option component is payable in shares of a company other than a company issuing the bond. In one aspect, the call option component is only exercisable after a second predetermined period of time.

[0006] In one aspect, the invention provides a financial instrument with a first component and a second component that are issued together in an initial issue. The instrument comprises a right to receive periodic payments over a predetermined period of time until a maturity date without payment of any principal as pan of the first component. The instrument also comprises a right in the form of a call option to receive shares of the issuing company or a cash equivalent as pan of the second component. After the initial issue, the financial instrument allows separation of the first component from the second component and individual transfer of the first component and the second component.

[0007] In one aspect, the invention provides a method and system for raising funds comprising issuing a bond. The bond comprises a coupon component that pays a periodic coupon during a first predetermined period of time until a maturity date of the coupon component without payment of any principal. The bond also comprises a call option component. The coupon and call option components are issued together in an initial issue of the bond. After the initial issue, the bond allows separation of the coupon component from the call option component and individual transfer of the coupon component and the call option component. The system and method also comprise paying the periodic coupon, and determining whether the call option component has been exercised.

[0008] The foregoing specific aspects are illustrative of those which can be achieved, and are not intended to be exhaustive or limiting. Thus, the objects and advantages will be apparent from the description herein or can be learned from practicing the invention, both as embodied herein or as modified in view of any variations which may be apparent to those skilled in the art. Accordingly, the present invention resides in the novel parts, constructions, arrangements, combinations and improvements herein shown and described.

BRIEF DESCRIPTION OF THE DRAWINGS

[0009] The foregoing features and other aspects of the invention are explained in the following description taken in conjunction with the accompanying figures wherein:

[0010] **FIG. 1** illustrates a system according to one embodiment:

[0011] **FIG. 2** illustrates steps in a method according to one embodiment; and

[0012] **FIG. 3** illustrates relationships between parties according to one embodiment.

[0013] It is understood that the drawings are for illustration only and are not limiting.

DETAILED DESCRIPTION OF THE DRAWINGS

[0014] In the various embodiments described herein and illustrated in the drawings, a company forms a bankruptcy-remote limited liability company (LLC), and transfers shares to the LLC. A finance product is issued that includes a call option component on the shares transferred to the LLC, and a coupon component that pays a periodic coupon. The call option component and the coupon component are issued together in a initial issue, but may be separated later and transferred individually.

[0015] The coupon component does not pay or return any principal during the term or at maturity, but instead pays only the periodic coupon. The periodic coupon may be fixed or variable.

[0016] An Example System

[0017] Referring to **FIG. 1**, system **100** according to one embodiment includes company **102**, special purpose vehicle ("SPV") or bankruptcy remote LLC **104**, and investors **106**. Company **102**, LLC **104**, and investors **106** are interconnected by network (LAN, WAN, intranet, extranet, pstn, the Internet, etc.) **108**. Company **102** includes a computer with a central processing unit (CPU) **110**, memory (RAM, ROM, etc.) **112**, input/output devices (keyboards, displays, printers, pointing devices, etc.) **114**, fixed and removable storage

(hard drive, floppy drive, optical drive, etc.) **116**, and network interface device (modem, Ethernet card, WiFi card, etc.) **118**. Although not illustrated, LLC **104** and investors **106** also include a CPU **110**, memory **112**, input/output devices **114**, fixed and removable storage **116**, and network interface device **118**. There are many possible embodiments for CPU **110**, memory **112**, input/output devices **114**, fixed and removable storage **116**, and network interface device **118**, and their precise forms are not particular features of the embodiments described herein, and equivalents are clearly envisioned.

[**0018**] An Example Method

[**0019**] Referring to **FIG. 2**, at step **202**, company **102** forms a bankruptcy-remote entity, such as an LLC, or special purpose vehicle (SPV) **104**. In one embodiment, the LLC will wind-up after a predetermined period of time, such as 30 years. In one embodiment, the LLC is structured so that company **102** controls all voting rights and share lending of LLC **104**.

[**0020**] At step **204**, company **102** transfers shares to LLC **104** in exchange for an ownership interest in the LLC. In one embodiment, the ownership interest is 100%, and in an example, 100 mm shares are transferred.

[**0021**] At step **206**, exchangeable bundled option and no-principal debt securities ("X-Bonds") are issued to the market. In one embodiment, the X-Bonds are issued by company **102**. In another embodiment, the X-Bonds are issued by LLC **104**. The X-Bonds include a coupon component that pays a periodic coupon over a predetermined period of time, and a call option component. The coupon component only pays a coupon, and there is no payment of principal during the term or at maturity. The coupon component and the call option component are issued together in the initial issue of the X-Bonds. After issue, an X-Bond holder can separate the coupon component from the call option component, and transfer or sell them as individual components.

[**0022**] In one embodiment the coupon component pays a periodic fixed coupon over the term until maturity. In another embodiment the coupon component pays a periodic variable coupon over the term until maturity. In one embodiment, the 30 year maturity of the coupon component is the same length as the 30 year wind-up time of the LLC. In one embodiment, holders of the coupon component have recourse to company **102**.

[**0023**] In one embodiment, the call option component expires at the end of a 30 year period, along with the 30 year wind-up time of the LLC, and is settled in net cash or net shares, at the election of company **102**. In one embodiment, holders of the call option component have recourse to LLC **104**, while in another embodiment, holders of the call option component have recourse to company **102**.

[**0024**] At step **208**, after initial issue, system **100** determines whether a coupon payment is due on the coupon component, and if so, the coupon is paid at step **210**.

[**0025**] If at step **208** system **100** determines that a coupon payment is not due, then at step **212** system **100** determines whether the term of the coupon component is reached, and if not, loops to step **208**.

[**0026**] At step **214**, after initial issue, system **100** determines whether a conversion option is available for the call option component, and if so, then at step **216**, system **100** determines whether the holder of the call option component has elected conversion. In one embodiment, the call option component is not exercisable during an initial period, such as _ years. If at step **216** system **100** determines that the holder of the call option component has elected conversion, then at step **218**, system **100** determines whether the conversion is by cash or stock. At steps **220**, **222**, the call option component is converted to either cash or stock. In one embodiment, the determination of whether conversion is by cash or stock is by election of company **102**.

[**0027**] Once convened, system **100** determines at step **212** whether the term has expired, and if not, loops to step **214**.

[**0028**] If system **100** determines at steps **214** or **216** that a conversion option is not available, or the holder of the call option component has not elected conversion, then at step **212** system **100** determines whether the term has expired, and if not, loops to step **214**.

[**0029**] **FIG. 3** illustrates some additional features of the embodiments and relationships between the parties along with an example.

[**0030**] After forming LLC **104**, company **102** transfers 100 mm shares of company **102** stock to LLC **104**. In exchange for that stock transfer, company **102** is the 100% owner of LLC **104**. At the time company **102** transfers the stock, the stock is worth $18 per share, making the stock transfer worth $1.8 bn.

[**0031**] The X-Bonds are issued to the market, where they are purchased by investors **106**. The X-Bonds include the coupon component and the call option component. The coupon component pays a coupon (fixed or variable), but no principal over the 30 year term of the X-Bond, while the call option component allows the holder to convert the call option component to shares of company **102** stock at any time during the 30 year term of the X-Bond. In return for the coupon component and the call option component, investors **106** pay $22 for each X-Bond, which generates $2.2 bn from 100 mm X-Bonds. About $1.2 bn corresponds to the value of the call option component, and about $1.0 bn corresponds to the value of the coupon component. Although company **102** eventually receives all of the $2.2 bn proceeds, the $1.0 bn portion corresponding to the coupon component is treated as debt, while the $1.2 bn portion corresponding to the call option component is treated as an asset sale.

[**0032**] Company **102** transferred 100 mm shares of company **102** stock to LLC **104**, and the 100 mm shares are subject to conversion if holders of the X-Bond call option components convert them. Therefore, recourse on the call option component is to LLC **104**. It is also possible that recourse on the call option component is to company **102**.

[**0033**] Company **102** is responsible for payment of the coupon component of the X-Bonds, and therefore recourse on the coupon component is to company **102**.

[**0034**] This structure has tax efficiencies because the debt component provides current deductions at company **102**'s cost of funds. There is no interest capitalization and no tax recapture. Further, this provides an economic hedge with up to 30 years of capital gains tax deferral.

[0035] For accounting purposes the structure also has advantages. Company **102** recognizes the sale of shares under FAS **140**. This provides less balance sheet use than traditional exchangeables, and retains an asset representing residual exposure to the underlying shares. The debt is recorded separately and does not include the call option liability.

[0036] From a rating agency perspective, the structure also has advantages. Only about $1 bn of debt is recorded on the balance sheet, as compared to $2.2 bn for a traditional exchangeable.

[0037] In the above-described embodiments, company **102** transfers stock of their own company to LLC **104**. In another embodiment, company **102** transfers stock of another company (e.g., company Y) to LLC **104**, while retaining a 100% ownership interest in LLC **104** in return for the stock transfer. In this embodiment, the call option component allows conversion of the call option for stock of company Y. This embodiment might be used where company **102** owns stock in company Y and wants to take advantage of that stock ownership to raise capital, while retaining ownership or control of company Y stock until the call option components of the X-Bonds are exercised.

[0038] Although illustrative embodiments have been described herein in detail, it should be noted and will be appreciated by those skilled in the art that numerous variations may be made within the scope of this invention without departing from the principles of this invention and without sacrificing its chief advantages.

[0039] Unless otherwise specifically stated, the terms and expressions have been used herein as terms of description and not terms of limitation. There is no intention to use the terms or expressions to exclude any equivalents of features shown and described or portions thereof and this invention should be defined in accordance with the claims that follow.

We claim:

1. A bond comprising:

a coupon component that pays a periodic coupon during a first predetermined period of time until a maturity date of the coupon component without payment of any principal; and

a call option component, the coupon and call option components issued together in an initial issue of the bond, wherein after the initial issue, the bond allows separation of the coupon component from the call option component and individual transfer of the coupon component and the call option component.

2. A bond according to claim 1, wherein the periodic coupon is a periodic fixed coupon.

3. A bond according to claim 1, wherein the periodic coupon is a periodic variable coupon.

4. A bond according to claim 1, wherein the call option component expires at the maturity date.

5. A bond according to claim 1, wherein the first predetermined period of time is between 15 and 30 years.

6. A bond according to claim 1, wherein the call option component is exercisable at a time after issue of the bond and before the maturity date.

7. A bond according to claim 1, wherein the call option component is exercisable at the maturity date.

8. A bond according to claim 1, wherein the coupon-component has recourse to a company issuing the bond.

9. A bond according to claim 1, wherein the call option component has recourse to a bankruptcy remote entity formed by a company issuing the bond.

10. A bond according to claim 1, wherein the call option component has recourse to a company issuing the bond.

11. A bond according to claim 1, wherein the call option component is payable in cash.

12. A bond according to claim 1, wherein the call option component is payable in shares of a company issuing the bond.

13. A bond according to claim 1, wherein the call option component is payable in shares of a company other than a company issuing the bond.

14. A bond according to claim 1, wherein the call option component is only exercisable after a second predetermined period of time.

15. A financial instrument with a first component and a second component that are issued together in an initial issue, the instrument comprising:

a right to receive periodic payments over a predetermined period of time until a maturity date without payment of any principal as part of the first component;

a right in the form of a call option to receive shares of the issuing company or a cash equivalent as part of the second component, wherein after the initial issue, the financial instrument allows separation of the first component from the second component and individual transfer of the first component and the second component.

16. A method for raising funds comprising:

issuing a bond, wherein the bond comprises:

a coupon component that pays a periodic coupon during a first predetermined period of time until a maturity dale of the coupon component without payment of any principal; and

a call option component, the coupon and call option components issued together in an initial issue of the bond, wherein after the initial issue, the bond allows separation of the coupon component from the call option component and individual transfer of the coupon component and the call option component;

paying the periodic coupon; and

determining whether the call option component has been exercised.

17. A system for raising funds comprising:

means for issuing a bond, wherein the bond comprises:

a coupon component that pays a periodic coupon during a first predetermined period of time until a maturity date of the coupon component without payment of any principal; and

a call option component, the coupon and call option components issued together in an initial issue of the bond, wherein after the initial issue, the bond allows separation of the coupon component from the call option component and individual transfer of the coupon component and the call option component;

means for paying the periodic coupon; and

means for determining whether the call option component has been exercised.

18. Computer executable software code transmitted as an information signal, the code for raising funds, the code comprising:

code to issue a bond, wherein the bond comprises:

a coupon component that pays a periodic coupon during a first predetermined period of time until a maturity date of the coupon component without payment of any principal; and

a call option component, the coupon and call option components issued together in an initial issue of the bond, wherein after the initial issue, the bond allows separation of the coupon component from the call option component and individual transfer of the coupon component and the call option component;

code to pay the periodic coupon; and

code to determine whether the call option component has been exercised.

19. A computer-readable medium having computer executable software code stored thereon, the code for raising funds, the code comprising:

code to issue a bond, wherein the bond comprises:

a coupon component that pays a periodic coupon during a first predetermined period of time until a maturity date of the coupon component without payment of any principal; and

a call option component, the coupon and call option components issued together in an initial issue of the bond, wherein after the initial issue, the bond allows separation of the coupon component from the call option component and individual transfer of the coupon component and the call option component;

code to pay the periodic coupon; and

code to determine whether the call option component has been exercised.

20. A programmed computer for raising funds, comprising:

a memory having at least one region for storing computer executable program code; and

a processor for executing the program code stored in the memory, wherein the program code comprises:

code to issue a bond, wherein the bond comprises:

a coupon component that pays a periodic coupon during a first predetermined period of time until a maturity date of the coupon component without payment of any principal; and

a call option component, the coupon and call option components issued together in an initial issue of the bond, wherein after the initial issue, the bond allows separation of the coupon component from the call option component and individual transfer of the coupon component and the call option component;

code to pay the periodic coupon; and

code to determine whether the call option component has been exercised.

* * * * *